



ODDO BHF

INVESTMENT *Strategy*

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Safety ropes recommended



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The summit remains within reach, but the clouds are growing darker.

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While the Trump show — full of announcements, threats and internet memes — did not take a summer break, most investors were still able to enjoy a relaxing holiday. The stock markets have clearly learned to live with the chaos of the Trump era. Is this carelessness, or have investors now developed the ability to filter out irrelevant noise and focus on signals relevant to their investments? After all, the markets never take a break. Those who want to achieve long-term return targets must seize investment opportunities, even in risky times. As with mountaineering, it is important not to look down, but to keep climbing to reach the summit. However, in view of high valuations, it is a good idea to secure yourself for the further ascent.

The US market cannot be ignored

Since the market slump triggered by the tariff announcements in April, stock markets have shown a strong recovery. This rally has particularly affected US technology stocks, while the upturn in the eurozone stock market lost some momentum after the price gains in the first quarter. Investors have once again turned their attention to momentum stocks, and to a lesser extent to growth (US) and value (Europe) stocks, which are strongly represented in the respective indices. To date, the big rotation from the US to Europe remains wishful thinking expressed by some commentators. Yes, a tentative shift began at the start of the year, but it is still in its early stages (at best), and the harsh reality of the figures is that European equity

funds have generated zero net inflows over the last five years. Thus, if they want to become as attractive to investors as the US, European capital markets will have a lot of catching up to do. Alongside the efficient implementation of the announced German infrastructure programs, greater integration of the capital markets would also be necessary. Until then, US equities will remain indispensable for investors. After all, at USD 4500bn, Nvidia's market capitalization is equal to the sum of Germany's and France's leading stock indices.

USA: The bull has less and less room to run

However, this does not mean that investing in the US is risk-free in the current market environment. Higher US tariffs (with an overall average effective tariff rate between 13% and 17% according to various independent estimates) and a weakening labour market (with US nonfarm payrolls rising by 22k in August 2025, well below an upwardly revised 79k in July) are likely to lead to a slowdown in economic growth in the medium term. Additionally, mounting political pressure on the US Federal Reserve could erode its credibility and rekindle inflation concerns. Nevertheless, it would be premature to dismiss the US because of the undeniably negative consequences of tariffs. The US economy is focused on a large domestic market and services. Therefore, not all companies will be affected by trade tensions, and profits are still showing double-digit growth for both 2025e and



2026e. Furthermore, the Trump administration has introduced a series of measures that will provide relief. The most notable of these are the tax cuts contained in the Big Beautiful Bill, which are sufficient to offset the negative impact of tariffs to a large extent. Deregulation of the financial sector could free up capital for lending, thereby supporting companies looking to expand. Finally, given weaker labour market data, the central bank will continue to cut interest rates, even without political pressure. All these factors will continue to support equities in the coming months and almost overshadow the debate on stagflation vs. recession vs. soft landing vs. no landing.... for now. However, as valuations have now reached a level that is disproportionate to the risk, it is advisable to adopt a slightly underweight position. Although the major AI stocks are at high risk of a setback due to their excessive valuations and top-heavy free cash flow generation, we believe that the theme will remain relevant in the long term. We recommend focusing on “adopters” rather than “infrastructure” and “enablers”. These include digital advertising providers, healthcare companies using AI, “digital assets” platforms, and companies able to monetize AI and agentic AI.

Europe: Short-term momentum is slowing down

Can Europe decouple itself from the US and achieve stronger growth than in recent years? Recently, German equities in particular have benefited from expectations of the EUR 1200 billion fiscal impulse in the form of planned investment packages for defence and infrastructure over the next 10 years. If these packages are launched in autumn, there is a good chance that Germany will return to growth, albeit modestly at first. After more than two years of recession, this would be long overdue. The fiscal stimulus from Germany could spread to other countries, as many suppliers in the construction, materials, chemicals, and defence industries also come from elsewhere in Europe. However, further improvements to the business environment are needed for this upturn to become self-sustaining. This is an area in which European governments still have work to do. In Germany, the only foreseeable measures so far are relief for companies on electricity costs in 2026 and a reduction in corporation tax, albeit not until 2028. As in Europe, corporate profits in Germany are therefore lagging behind valuations.

In the long term, the European Commission's initiative for a Savings and Investment Union (SIU) offers the greatest potential for redirecting Europeans' EUR 33000bn savings into productive investments and stimulating anaemic growth in Europe. However, given the political crisis in France with a government lacking a parliamentary majority and disagreement within the EU on certain issues no significant progress is expected in the short term. The situation is more promising in terms of joint efforts in defence (EUR

2000bn to invest over 10 years to go from 2% to 3% of GDP). Here, companies are preparing for increased orders and expanding their capacity. As many institutional investors and funds have not yet incorporated this theme into their portfolios, there could be continued inflows into this asset class. Another sector with upside potential is the eurozone banking sector. This sector has been recovering for some time, and fundamentals remain exceptionally strong, ranging from Return on Equity (13%) to Non-Performing Loans ratio (less than 2%) or Tier 1 Capital Ratio (17%). Nevertheless, due to the tariffs imposed by the US, which continue to weigh on economic growth, we favour small caps over large and mid-caps, as the latter are more export-dependent and thus more exposed to external economic factors.

China: The country of the future?

Outside of Europe and the US, China and India are amongst the markets with the strongest growth potential in the world. Despite the ongoing property market crisis hindering China's recovery, the country's industrial policy, recently boosted by the anti-involution campaign to stamp out price wars, is creating numerous opportunities in industries of the future. China also shows promise in the technology sector, with the development of chatbots such as Deep-Seek, and the increasing use of AI in areas such as humanoid robots and self-driving cars where China is leading. India, on the other hand, is suffering from tariffs that will weigh on economic growth, coupled with a slowdown in bank lending growth and investments, impacting the earnings per share of Indian companies.

Fixed Income: Extending duration with a preference for US. Neutral on Credit.

Long-term yields have recently increased (5.7% for the UK 30-year, 5.0% for the US 30-year, 4.5% for the French 30-year) leading to a build-up of the term premium. In core Europe (France mainly) it remains to be seen how the market will respond to the glut of new German government bonds. Given the subdued economic growth in both the US and Europe, we consider a slightly longer duration position to be reasonable. Corporate bonds remain attractive. Although spreads are relatively narrow, yields still offer good carry potential, overall beating inflation in most cases. From a risk/return perspective, we continue to favour short-duration investment-grade and high-yield bonds due to their low drawdown potential.

Diversification: We are positive on euro, gold and oil...and crypto currencies

At the current exchange rate of 1.17, we maintain our view that the euro will appreciate against the



US dollar. Gold has once again proven to be an effective diversifier during periods of high uncertainty. There are many indications that, if the dollar weakens, the precious metal could continue to gain importance in the portfolios of private investors and the reserves of central banks. Whether or not crypto assets will one day serve as a substitute currency remains to be seen. In any case, the regulatory and technical framework for this to happen is currently being created. The future always begins now, and we believe that including this type of asset in an allocation makes sense.

Conclusion: Be cautious of loose rocks while climbing for gains

As investors, we are halfway up a challenging mountain: the view is impressive, the opportunities are tempting, but the path ahead is narrow and scattered with loose stones. Now is not the time to turn back, but neither is it the time to sprint ahead without a rope. Equities still offer upside, but selectivity is key — balancing exposure across regions and sectors to capture performance while

avoiding stretched valuations when not justified. Fixed income can provide stability, with slightly longer duration offering potential as growth slows, alongside a prudent stance on credit risk. Alternative assets, from commodities to crypto, remain valuable diversifiers. In this setting, portfolio construction is less about chasing momentum than about optimizing risk-adjusted returns, ensuring that every step upward is taken on solid ground. The summit remains within reach, but the clouds are growing darker.

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Past performance is not a reliable indicator of future returns and is subject to fluctuation over time. Performance may rise or fall for investments with foreign currency exposure due to exchange rate fluctuations. Emerging markets may be subject to more political, economic or structural challenges than developed markets, which may result in a higher risk

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